PX 100

Message
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From:	██████████ @ripple.com]
on behalf of	██████ @ripple.com> ███ @ripple.com]
Sent:	8/1/2014 5:27:02 PM
To:	███████████████ @ripple.com>]; ██████████ @ripple.com>]
CC:	Asheesh Birla [Asheesh Birla < ████ @ripple.com>]
Subject:	Fwd: Explanations on dumping ██████

Hi ██████████,

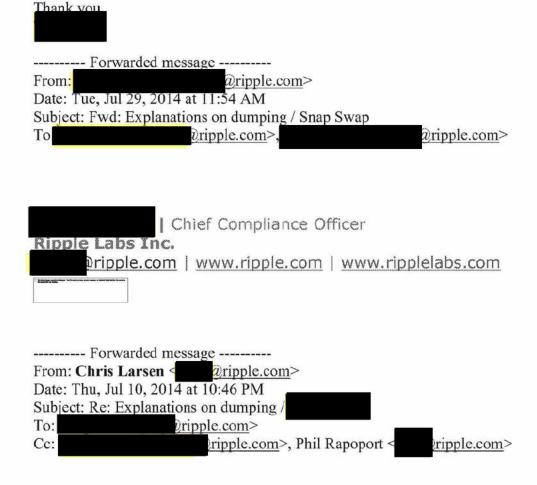██████████ had a call today with ████ eveloper named Drew regarding the bitcoin-XRP API.

A few questions came up regarding wholesale contract terms, as this API allows Kurt to automatically purchase XRP with BTC. I am aware that Chris specified new terms, in which we offer a 10% rebate 30 days after the bulk purchase if the counter party does not resell >20% the spot price or less than spot. Are we considering this automated bitcoin-XRP exchange a wholesale transaction? If so, does the minimum purchase requirement still apply?

I just want to make sure that we are all on same page, and that you are aware of what is going on. Please let me know what your thoughts are as I know there is a lot of concern over dumping and its effect on XRP pricing.

Thank you,
██████████

---------- Forwarded message ----------
From: ██████████████ @ripple.com>
Date: Tue, Jul 29, 2014 at 11:54 AM
Subject: Fwd: Explanations on dumping / Snap Swap
To: ██████████ @ripple.com>, ██████████████ @ripple.com>

██████████ | Chief Compliance Officer
Ripple Labs Inc.
██ @ripple.com | www.ripple.com | www.ripplelabs.com

██████████

---------- Forwarded message ----------
From: **Chris Larsen** < ████ @ripple.com>
Date: Thu, Jul 10, 2014 at 10:46 PM
Subject: Re: Explanations on dumping / ██████████
To: ██████████ @ripple.com>
Cc: ██████████ @ripple.com>, Phil Rapoport < ████ @ripple.com>

Obviously we need a lot of work here but I would propose an immediate fix to our wholesale program as follows:
1) We sell to approved wholesalers at spot market.

2) We pay wholesalers a 10% commission on all purchases (whether resold or not) at month end
3) Require contractually that wholesalers can not resell at less than spot (anti-dumping) and no more than 20% over spot (anti-duping)
4) Wholesaler accounts will be analyzed at month-end (before commission pay outs) to ensure constructive behavior

Let's discuss tmrw

CHRIS LARSEN | CEO
Ripple Labs Inc.
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On Thu, Jul 10, 2014 at 8:06 PM, ████████████ @ripple.com> wrote:
 righto -- we'll pick this up tomorrow.

On Thu, Jul 10, 2014 at 7:38 PM, Chris Larsen ◄ ██████ @ripple.com> wrote:
 Great analysis████
 OK - it's time to set a strong monetary policy. Let's chat tomorrow.

 Chris

 Chris Larsen | CEO
 Ripple Labs, Inc.
 ██████@ripple.com | ripple.com

 On Jul 10, 2014, at 6:53 PM, ████████████ @ripple.com> wrote:

 Chris,████

 I'll have this conversation with just the two of you as the follow up to the investigation of the dumping (and recent trashing) of XRP pricing. This is not a Jed phenomena.

 Here's what's happened. We've continued to sell XRP wholesale at a discount to market (a practice you are well aware of that is disfavor) instead of selling at the market. In this case, ██████s buying at a 10% discount to market. ████████urns around and does the same thing we are doing: "wholesaling" the currency to its best users (just as we do). They shave the discount down to 1-3% in the case o████████elling to their best users. Those traders, in turn, if they sell as soon as they get XRP are "ahead" of the market (like any high frequency trader) and arbitrage the differential while trashing the marketplace.

 Basically, supply exceeds demand, whether through Jed's dumping or our own discounting (and subsequent re-discounting). The worst part of all this is that anyone in the know (myself included) who is willing to get paid in XRP knows that holding (as long as dumping and wholesaling are going on) is a losing strategy, and the incentive is to sell as well (to minimize my holding losses -- which have been substantial incidentally since the XRP I receive are break even to payout 1:1 costs I'm incurring in New Zealand dollars and British sterling). All of this creates downward pressure as a matter of pure supply and demand -- independent of any other intrinsic fundamentals.

Without addressing these issues, its really hard for us to reverse the dynamic and avoid the Zimbabawe spiral. Because we've neutered any sort of consumer demand for XRP, the only utility is as a lubricant for traders. Well that's fine if XRP was a closed loop system (like the oil for your car), but if there's a leak, then there's going to be no stoppage to prevent a loss of oil pressure. You can keep pouring oil in, but as long as its pouring out, the system will run dry as soon as you stop pouring it on. Unfortunately for us, the more we pour on, the more we need to poor on as long as there is a material overhang and no known (even if arbitrary) distribution strategy.

As it stands, our controlled (and uncontrolled) monetary policy remains loose. And what I have argued (and will continue to argue) is that there will not be an effective monetary policy unless:

-- we stop insider trading
-- we stop wholesaling at a discount for XRP that can be spot sold
-- we ignore the complimentary effects of retail and wholesale demand

Mind you, I have argued that we can discount future sales, but we absolutely should NOT discount present sales, and we should lock folks up that are insiders (even me) that are getting paid in XRP to clamp down on "dump supply". We are already seeking to lock Jed up and have dealt with the issue of founder overhang to get to reasonable levels with Arthur and Chris.

So I do sound like a broken record here, but my assertion is that we should think/act like a central bank and make our processes here transparent and consistent. That means legitimizing the sale of XRP at market prices (while paying commissions to the folks who act as agents). Unless we commit to this market discipline, we'll continue to run into situations like we've just had with ███████. I.e. him doing with his customers what we are doing with ours. Its a loose monetary policy at exactly the time we need a tight monetary policy.

Bitcoin has that discipline by mathematical enforcement. We do not because there's still the (short to medium term) uncertainty of distribution. As long as our distributions strategy is loose (in terms of founder/insider dumping and discounting to folks that rediscount) there's a whole in the bucket that can just keep accelerating.
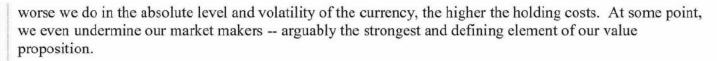
Bottom line is that we need to take our foot off the pedal and get an IDG round closed .... and get a clearly communicated strategy that founder/insiders are locked down and that all sales to the market place are going to be "at the market". What that means is a prolonged period in which we spend *anything but* XRP in the marketplace until we think that the price has recovered to the point where Ripple Labs "enterprise value" is restored. This talk is part of the reason that I ████████ myself) have pushed to hold options on the upside of the currency -- as it forces hard thinking on the monetary policy aspects of the currency.

Unfortunately, we've been running Ripple labs with a Krugman fiscal policy of late -- which is pumping money into the system to keep interest rates (in our case XRP) low. I get that thinking, but unfortunately we are pushing ourselves down to a point where we are going to have to blow a big chunk of our dry powder (and potentially all of it) until there's no chance of us even having a monetary policy because we've squandered our XRP reserves. We really need a monetary policy to push interest rates (in our case XRP) up. But that a discipline that we haven't shown ... and its clear that ██████ and probably others) are reading those tea leaves and are just aping what we are ourselves doing -- albeit on a smaller (but still devastating) basis.

A real monetary policy would be us holding a basket of currencies (rather than just XRP). People would know that we might support the market (but not expect us to always do so). There's nothing like that and I realize that its not in the DNA (and hasn't factored into the enterprise strategy thinking). Those folks though who think the absolute price of XRP doesn't matter are, IMHO, just dead wrong. The absolute price informs our runway, and the absolute volatility informs the overall "utility" of XRP. Yes, even with high volatility, market makers could use XRP as a bridge currency. But even in that case, there are holding costs -- and the

worse we do in the absolute level and volatility of the currency, the higher the holding costs. At some point, we even undermine our market makers -- arguably the strongest and defining element of our value proposition.

I haven't said anything to ███████ hat is "evaluative." I just listened to his explanations (which he was forthright with as it was clear that ███████ Co. had all the research in hand). The other currency he used for USD is not any attempt to hide the trades -- it just lets him separately account for these discount trade dollars passing through the system versus his "at par" trade dollars. We can carp about ██████ ut his micro economic analysis of our macro economic setup was spot on. I'm not happy about it, but its pure economics at work given the way we've stacked the deck.

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████████████

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